

## SUMMARY ANALYSIS OF AMENDED BILL

Author: Baldwin Analyst: Paul Brainin Bill Number: AB 2245

Related Bills: SB 141 (95/96) Telephone: 845-3380 Amended Date: 05-12-98

Attorney: Doug Bramhall Sponsor: Laurence F. Haines, atty.

**SUBJECT:** Limited Liability Companies/Professional Services

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended \_\_\_\_\_.

AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended \_\_\_\_\_.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO \_\_\_\_\_.

☒ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 19, 1998, STILL APPLIES.

☒ OTHER - See comments below.

### SUMMARY OF BILL

This bill would amend the Corporations Code to specify that a limited liability company (LLC) may not engage in certain professional services, but to allow an LLC to engage in any other lawful activity, except the banking, insurance, or trust business. This bill also would repeal the law that prohibits LLCs from engaging in professional services.

This bill also would restate a portion of the provision regarding a LLC member's personal liability as expressed in another section of the Corporation Code.

### SUMMARY OF AMENDMENT

The May 12, 1998, amendment added four types of professional services in which a LLC may not engage and duplicated the provision regarding a LLC member's personal liability, as stated in a separate section of the Corporation Code.

Except for the discussion in this analysis, the department's prior analysis of the bill as introduced February 19, 1998, still applies.

### Technical Considerations

This bill need not add subdivision (d) to Section 17002 of the Corporations

DEPARTMENTS THAT MAY BE AFFECTED:

\_\_\_ STATE MANDATE

\_\_\_ GOVERNOR'S APPOINTMENT

Board Position:

\_\_\_ S \_\_\_ O  
\_\_\_ SA \_\_\_ OUA  
\_\_\_ N \_\_\_ NP  
\_\_\_ NA \_\_\_ NAR  
☒ PENDING

Agency Secretary Position:

\_\_\_ S \_\_\_ O  
\_\_\_ SA \_\_\_ OUA  
\_\_\_ N \_\_\_ NP  
\_\_\_ NA \_\_\_ NAR  
DEFER TO \_\_\_\_\_

**GOVERNOR'S OFFICE USE**

Position Approved \_\_\_  
Position Disapproved \_\_\_  
Position Noted \_\_\_

Department/Legislative Director Date  
**Johnnie Lou Rosas** **5/27/98**

Agency Secretary Date

By: Date:

Code, since the text is identical to current law, as provided in Section 17101 (b) of the Corporations Code. Restating subdivision (b) of Section 17101 causes confusion since it is now unclear how this restatement interacts with the other matters related to personal liability contained in the remainder of Section 17101.

#### FISCAL IMPACT

##### Tax Revenue Estimate

Revenue losses are projected to be as follows:

Estimated Revenue Impact of <b>AB 2245</b> As Amended May 12, 1998 Enactment Assumed After June 30, 1998 (In \$Millions)			
Fiscal Year	1998-99	1999-00	2000-01
Revenue Impact	(1)	(1)	(1)

Any possible changes in employment, personal income, or gross state product that might result from this bill are not taken into account.

##### Tax Revenue Discussion

Revenue effects would depend on the number and type of qualified entities becoming LLCs and the difference between what their tax liability would have been and LLC requirements (minimum tax and fees).

Descriptive data for existing LLCs are not yet available. The revenue estimate for current law is that both revenue gains (e.g., LLC minimum tax and fees) and losses (e.g., loss of corporate entity tax, pass-through of operating losses) will occur, but, on balance, net revenue losses are on the order of \$5 million annually. Certain professional entities (e.g., closely-held corporations) would be better off from a tax perspective as LLCs, and others (e.g., general partnerships) would be worse off due to the minimum tax and fees. On balance, the net impact of this bill would not exceed 20% of current law.

#### BOARD POSITION

Pending.